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SUBJECT: BIOFUELS FORUM IN EL SALVADOR

¶1. SUMMARY: At a biofuels forum on September 25, diverse Salvadoran stakeholders heard presentations on biofuels, the U.S.-Brazil biofuels partnership and ongoing feasibility studies in El Salvador. A visiting biofuels researcher sponsored by EB and IIP, Dr. George Philippidis, drew on U.S. and Brazilian experience to discuss benefits and challenges of promoting biofuels. U.S. and Brazilian speakers jointly presented information about the U.S.-Brazil partnership and feasibility studies in El Salvador. A panel discussion aired stakeholders' concerns over food security and environmental issues. A press breakfast after the forum helped to distribute information about the U.S.-Brazil initiative. Subsequent meetings with Ministers of Economy and Agriculture highlighted keen GOES interest in biofuels and the importance of a pending ethanol law which has been delayed by pricing issues. END SUMMARY.

¶2. The forum's featured speaker, Dr. George Philippidis, provided an overview of U.S. and Brazilian biofuels industries and discussed the multiple benefits and challenges involved in promoting biofuels. Noting the competitiveness of El Salvador's sugar industry and investment climate, he discussed industry options and variables that will affect ethanol and biofuel industries in El Salvador. Dr. Philippidis emphasized the important GOES role in establishing biofuels mandates, temporary incentives and a favorable business climate to allow the private sector to invest in biofuels projects. Stakeholders who attended the conference included sugar growers and refiners, GOES, NGO, petroleum and other political party representatives; though, the FMLN representatives were a no show, despite saying they would attend.

¶3. In a similar presentation on September 26 at the Biofuels Seminar for Latin America and the Caribbean sponsored by the Latin American Energy Organization (known by its Spanish acronym - OLADE), Dr. Philippidis described new technologies being developed to produce cellulosic ethanol. The three-day OLADE seminar, sponsored in part by the GOES, Government of Brazil and the Food and Agriculture Association of the United Nations, attracted 200 participants from 17 different countries. For more information on the presentations at the seminar see <http://www.olade.org/biocombustibles/ponencia s.html>.

U.S.-BRAZIL INITIATIVE PRESENTED  
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¶4. Faith Corneille of WHA/EPSC joined Mauricio Borjes of Brazil's Export Promotion Agency (APEX) to explain the U.S.-Brazil biofuels partnership. Providing context of U.S. energy policy, Corneille underscored the joint U.S. and Brazilian objectives of diversifying energy matrices while providing environmental and economic benefits through biofuels production. Borjes discussed Brazil's long experience and success in developing a highly efficient biofuels industry. Teresa Cendrowska, Vice President of ASTM International, discussed ASTM's role in developing technical standards for

biofuels, underscoring an important area of collaboration under the U.S.-Brazil partnership

¶15. Consulting teams from Winrock International and a Brazilian NGO, the Getulio Vargas Foundation (FGV) delivered a joint presentation emphasizing their close collaboration and complementary roles in studying the feasibility of biofuels projects in El Salvador. Winrock explained their USTDA-funded definitional mission to identify specific investment or technical assistance projects to support biofuels development. FGV described their broader and lengthier mission to analyze technical issues and factors affecting the competitiveness and feasibility of biofuels projects in El Salvador. Sybille Nuenninghoff, energy officer at the Inter-American Development Bank (IADB), also discussed IADB's technical assistance and support for biofuels in El Salvador.

¶16. Following the presentations, another visiting biofuels specialist, Dr. Johanna Mendelson Forman, joined Dr. Philippidis to facilitate a panel discussion. Several stakeholders raised concerns over potential negative effects on food Security and the environment from ethanol production. Dr. Philippidis explained that Biofuels projects are unlikely to affect food prices in El Salvador since initial ethanol production would probably use molasses and existing sugar production. (COMMENT: El Salvador sells roughly half of its 500,000 metric tons of annual sugar production at higher prices to the U.S. and internal market, while the remainder is exported at lower world prices. Initial ethanol projects could use molasses and possibly sugar that would otherwise be exported at lower world prices. END COMMENT.) Dr. Philippidis also clarified that the implementation of Biofuels projects are more likely to have a positive rather than a negative impact on the environment.

¶17. At a media breakfast on September 26, forum speakers fielded questions from 10 Salvadoran print journalists on the U.S.-Brazil initiative and implications of potential biofuels projects in El Salvador. One local paper, La Prensa Grafica, exaggerated a conflict between speakers' comments supporting investment incentives and GOES opposition to incentives. The GOES does not expect investment incentives to be necessary if the ethanol law includes a 10% mixing mandate and pricing mechanisms to reduce investment risks.

#### PRICING ISSUES DELAY ETHANOL LAW

¶18. Econoff and Faith Corneille joined Winrock consultants in meetings with Minister of Economy Yolanda de Gavidia on September 25 and Minister of Agriculture Mario Salaverria with his Vice Minister Emilio Suadi and Presidential Agricultural Advisor Carmen Elena Diaz de Sol on September 26. Both Ministers emphasized strong private sector interest in biofuels projects and underscored the importance of an ethanol law being drafted to establish a 10% mixing mandate and encourage private investment in biofuels. Both described in detail the outstanding issues and political pressures over pricing mechanisms and profit-sharing arrangements that the GOES is working to resolve.

¶19. In order to limit investment risk, the GOES has proposed a price floor of \$1.95 per gallon and a pricing band linked to world fuel prices but influential sugar producers are pushing for a higher price floor and more favorable terms to further reduce investment risks. Minister de Gavidia emphasized the GOES goal of encouraging private sector investment without raising fuel prices. A consultant from Colombia will visit in October to discuss Colombia's success in promoting biofuels including their legislative framework. As sugar producers have expressed frustration over delays in preparing ethanol legislation since 2004, the GOES has repeatedly promised to finalize the ethanol law by the end of 2007. Minister de Gavidia noted that numerous consultants have provided sufficient analysis and proposals, but the GOES needs to make careful political decisions to resolve the pricing issues.

#### COMMENT

¶10. The biofuels forum provided an opportunity to roll out U.S. and Brazilian consulting missions under the U.S.-Brazil Initiative and address important stakeholders in EL Salvador. The forum also

highlighted stakeholders' concerns over potential negative impact of biofuels projects on food security and the environment. While visiting speakers may have helped to allay these concerns, the forum highlighted the need for further public education on the benefits and risks of biofuels. The GOES meetings underscored the keen interest of Ministers de Gavidia and Salaverria in biofuels and the importance of pending ethanol legislation. In addition to ethanol, the GOES is very interested in biodiesel projects, since El Salvador consumes more diesel than gasoline and diesel may offer greater income and employment opportunities for small farmers. Presentations from the biofuels forum will be posted on Embassy-San Salvador's internet website (<http://sansalvador.usembassy.gov/>).  
END COMMENT.

Glazer